

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 SEC-01 AGR-10 /121 W

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R 271823Z JAN 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6000

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 02 BONN 01441

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (REPORTING PERIOD
JANUARY 20-26)

REF.: BONN 1355

1. FOREIGN EXCHANGE MARKET: IN LIGHT TRADING THROUGHOUT
THE WEEK THE DOLLAR FLUCTUATED IN RELATIVELY NARROW
MARGINS ON THE FRANKFURT FOREIGN EXCHANGE MARKET DESPITE
THE SITUATION IN ITALY AND THE REPORTED SUBSTANTIAL
SALES OF DOLLARS BY SOME CENTRAL BANKS, PRINCIPALLY THE
BANQUE DE FRANCE. SINCE GERMAN DOMSTIC MONEY MARKET
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RATES (SEE TABLE BELOW IN PARAGRAPH 2) AS WELL AS EURO-

DM RATES REMAINED PRACTICALLY UNCHANGED, AND EURO-DOLLAR RATES INCREASED ONLY SLIGHTLY, INTEREST RATE DIFFERENTIALS APPEAR NOT TO HAVE HAD SIGNIFICANT IMPACT ON DM/\$ EXCHANGE RATES. THE MODEST STRENGTHENING TREND BETWEEN JANUARY 19 AND 22, DURING WHICH THE CENTRAL RATE ROSE FROM DM 2.5985 TO DM 2.6140 WAS ATTRIBUTED BY THE GERMAN FINANCIAL PRESS TO AN APPARENT PARTIALITY FOR THE DOLLAR OVER THE DM IN CAPITAL OUTFLOWS FROM ITALY. TRADING IN FRANKFURT REACHED DM 2.6150 ON JANUARY 22, THE HIGHEST DURING THE REPORTING WEEK. THE SUBSEQUENT DROP OF THE DOLLAR ON JANUARY 23 AND JANUARY 26, ACCORDING TO THE PRESS, WAS DUE TO "HEAVY" INTERVENTIONS BY THE BANQUE DE FRANCE DURING THE PREVIOUS WEEK RESULTING IN A WEAKENING OF THE DOLLAR AGAINST THE FRANCE AND ALSO THE DM. GERMAN TRADE FIGURES, RELEASED ON JANUARY 26 (SEE BONN 1355), WERE LARGELY AS EXPECTED AND THEREFORE SEEM TO HAVE HAD LITTLE, IF ANY, EFFECT ON THE MARKET. DURING THE REPORTING PERIOD FRANKFURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

	SPOT DOLLARS	ONE-MONTH	THREE-MONTH
JAN 20	DM 2.6023	-1.4	-1.7
21	2.6058	-1.6	-1.9
22	2.6140	-1.5	-1.8
23	2.6045	-1.6	-1.8
26	2.5990	-1.9	-1.8

WITHIN THE JOINT FLOAT THE POSITION OF THE DEUTSCHEMARK AGAINST ALL FLOAT CURRENCIES REMAINED VIRTUALLY UNCHANGED.

2. MONEY MARKET: CONDITIONS ON THE GERMAN MONEY MARKET REMAINED RATHER STABLE WITH THE CALL MONEY RATE REMAINING SLIGHTLY ABOVE THE 3 1/2 PERCENT REDISCOUNT RATE. DURING THE REPORTING PERIOD FRANKFURT INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

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	CALL MONEY	ONE-MONTH MONEY	THREE-MONTH MONEY
JAN 19	3.5-3.7	3.6-3.9	3.8-4.1
20	3.6-3.8	3.6-3.9	3.8-4.1
21	3.6-3.8	3.6-3.9	3.8-4.1
22	3.5-3.7	3.6-3.9	3.8-4.1
23	3.7-3.9	3.6-3.9	3.8-4.1
26	3.5-3.6	3.6-3.8	3.8-4.0

3. GOVERNMENT BILLS TO INCREASE VAT, TOBACCO AND AL-
COHOL TAXES ASOF 1977 SUBMITTED TO LEGISLATORS:
FOLLOWING APPROVAL OF AN INCREASE IN EMPLOYER-EMPLOYEE
UNEMPLOYMENT INSURANCE PREMIUMS ESTIMATED TO CURB
OTHERWISE REQUIRED FEDERAL FINANCIAL SUPPORT OF THE UN-
EMPLOYMENT INSURANCE SYSTEM (BY DM 3.8 BILLION IN 1976;
SEE BONN 20144) AND ANOTHER BILL CHANGING SOME 40 LAWS
AND YIELDING EXPENDITURE REDUCTIONS AND REVENUE IN-

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FM AMEMBASSY BONN

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AMCONSUL FRANKFURT

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CREASES TALLING DM 2.1 BILLION IN 1976 (20584),
ANOTHER PACKAGE OF DRAFT LEGISLATION DESIGNED TO CURB

FEDERAL DEFICITS IN COMING YEARS HAS NOW BEEN SUBMITTED TO LEGISLATORS. THE PACKAGE, FIRST ANNOUNCED IN LATE AUGUST 1975 (14205) COMPRISES AN INCREASE OF THE VALUE ADDED TAX RATE (VAT) FROM 11 PERCENT TO 13 PERCENT AND INCREASES OF TOBACCO AND ALCOHOL TAXES BY 18 AND 20 PERCENT, RESPECTIVELY, ALL EFFECTIVE 1977. THE MEASURES, IF APPROVED, ARE ESTIMATED TO RAISE TOTAL PUBLIC SECTOR TAX REVENUES IN 1977 BY DM 11.5 BILLION, WITH DM 10.2 BILLION TO COME FROM THE VAT INCREASE AND DM 1.0 BILLION AND 0.3 BILLION, RESPECTIVELY, FROM THE TOBACCO AND ALCOHOL TAX INCREASES. OF THE TOTAL DM 11.5 BILLION, UNCLASSIFIED

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DM 8.2 BILLION WOULD FALL TO THE FEDERAL GOVERNMENT. THE REMAINDER WOULD BENEFIT THE STATES AND, VIA HIGHER STATE CONTRIBUTIONS, THE MUNICIPALITIES. AFTER FIRST READING IN THE BUNDESTAG ON JANUARY 23, THE BILLS WERE REFERRED TO COMMITTEES. GIVEN PERSISTENT CDU/CSU OBJECTIONS TO THE GOVERNMENT'S VAT INCREASE PLANS WHICH REQUIRE APPROVAL BY THE OPPOSITION-CONTROLLED BUNDESRAT, CHANCES FOR PASSAGE ARE SLIM. HILLENBRAND

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